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Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

INCOME & EQUITY INDEX PARTICIPATION FUND

ANNUAL REPORT 2007

INCOME & EQUITY INDEX PARTICIPATION FUND

Income & Equity Index Participation Fund (the "Fund" or "Income & Equity") is a closed-end investment trust which became listed on the Toronto Stock Exchange on February 18, 2004. The Fund has a termination date of June 30, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2007, Income & Equity paid total cash distributions of \$0.90 per unit based on monthly distributions of \$0.075 per unit. Distributions totaled \$0.88 per unit for 2006 as the monthly distribution rate increased in May 2006 from \$0.07 per unit to \$0.075 per unit.

INVESTMENT HIGHLIGHTS:

	2007	2006	2005
Net Assets per Unit ⁽¹⁾	\$ 10.99	\$ 11.34	\$ 12.07
Market Price per Unit ⁽¹⁾	\$ 9.80	\$ 9.65	\$ 10.70
Trading Premium (Discount)	(10.8%)	(14.9%)	(11.4%)
Cash Distributions per Unit	\$ 0.90	\$ 0.88	\$ 0.84
Trailing Yield ⁽²⁾	9.2%	9.1%	7.9%
Market Capitalization (\$ millions)	\$ 128.5	\$ 132.3	\$ 153.0

⁽¹⁾ Net assets and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

MANAGEMENT REPORT OF FUND PERFORMANCE

(March 20, 2008)

This annual report for the years ended December 31, 2007 and 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Income & Equity Index Participation Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Income & Equity's investment objectives are to provide investors with monthly cash distributions from an equal weighted diversified portfolio of Canadian income funds and to provide an opportunity to participate in gains in the broader Canadian equity market as represented by the S&P/TSX 60 Index through a 5 year capped call option on the Index.

RISK

There are a number of risks associated with an investment in Income & Equity Index Participation Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion

rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and semi-annual rebalancing by the Fund's rebalancing advisor of the securities held in the portfolio may reduce these risks.

INCOME TRUST TAX

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Income & Equity, however the tax will impact many of the holdings within its portfolio.

RESULTS OF OPERATIONS

The overall income trust sector experienced much higher redemptions in 2007 relative to 2006 despite having produced a positive total return of 6.6% in 2007 compared to negative 2.8% in 2006. In addition to the negative funds flow into the sector, weakness in the energy and real estate sectors along with confirmation of the new tax on trust distributions commencing in 2011 weighed on overall valuations. Despite record high oil prices in 2007, energy related trusts were hampered by the rising \$Cdn and escalating costs as well as soft natural gas prices and the prospect of Alberta royalty rate increases. In addition, Reits suffered their first year of negative performance since 1998 as concern over the decelerating US economy and US real estate issues caused by tightening credit depressed Reit unit prices. On the positive side, strong acquisition and privatization activity provided some sector wide unit price support, particularly in the ongoing business trust sector.

As a result of these negative market conditions and the Fund's mandatory unit repurchases, Income & Equity's net assets declined from \$155.5 million at December 31, 2006 to \$144.1 million at December 31, 2007. On a per unit basis, the Fund's net assets also declined from \$11.34 per unit at December 31, 2006 to \$10.99 per unit at the end of 2007.

The Fund's market price increased to \$9.80 per unit at December 31, 2007 from \$9.65 per unit at the end of 2006. Income & Equity's market price appreciation plus monthly cash distributions produced a 10.8% total return for 2007, while the Fund generated a 5.7% total return on a net assets basis. By comparison, the S&P/TSX Income Trust Index returned 6.6% over the same period.

Total revenue for 2007 was \$12.7 million compared to \$14.2 million in 2006 as certain trusts reduced distributions and the Fund's portfolio was reduced to fund unit repurchases. Administrative and rebalancing advisor fees, which were paid in units up until March 1, 2007 and calculated in reference to the Fund's net asset value, totaled \$0.9 million for 2007 compared to \$1.0 million for in 2006. On March 1, 2007, the Fund commenced paying these fees in cash, rather than in units of the Fund, in accordance with the Fund's administrative services agreement. Trailer fees, which are also calculated in reference to the Fund's net asset value, fell slightly to \$0.47 million from \$0.50 million in the prior year. Loan interest costs were consistent at \$1.2 million in 2007 and 2006 as the Fund remained fully drawn on its \$18.75 million term facility throughout the year. General and administration costs, including portfolio transaction costs and other expenses, totaled \$0.6 million for 2007 compared to \$0.4 million for 2006. The reason for the increase relates to the inclusion of portfolio transaction costs of \$0.3 million in 2007 which are not reflected in the 2006 figures due to the implementation of the new accounting standard on financial instruments. After total expenses of \$3.2 million for 2007, the Fund generated net investment income of \$9.5 million or \$0.70 per unit in 2007 compared to \$11.2 million or \$0.80 per unit in 2006 primarily due to higher revenue in the prior year.

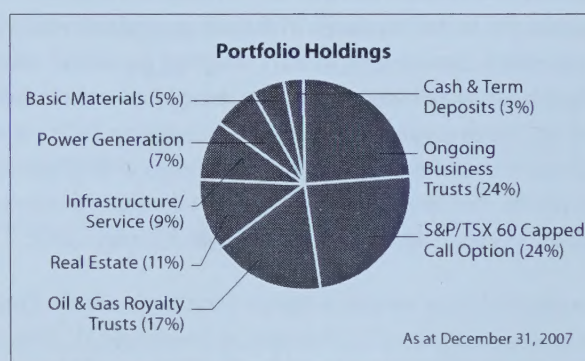
During 2007, the Fund realized losses of \$2.2 million on the sale of investments as a result of the semi-annual rebalancings in 2007 and various fund mergers and privatizations that occurred during the year. The Fund experienced unrealized losses of \$3.0 million on its income trust portfolio as valuations declined over the year, offset by unreal-

ized gains of \$3.1 million on the S&P/TSX 60 capped call option. For 2006, Income & Equity experienced unrealized losses of \$17.4 million while the S&P/TSX 60 capped call option had an unrealized gain of \$6.8 million. For 2007, the Fund generated total results of operations of \$7.3 million or \$0.54 per unit compared to \$1.4 million or \$0.09 per unit for 2006.

Income & Equity paid monthly distributions for a total of \$12.1 million or \$0.90 per unit for 2007 compared to \$12.3 million or \$0.88 per unit for 2006. The monthly distribution rate was increased to \$0.075 per unit from \$0.07 per unit effective for the May 31, 2006 record date distribution.

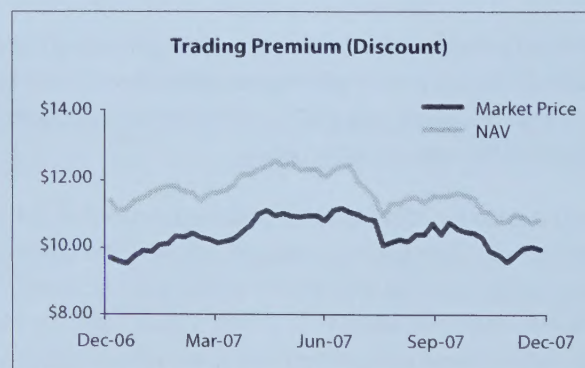
Income & Equity uses leverage as part of its investment strategy. The term portion of the facility of \$18.75 million was used to acquire the S&P/TSX capped call option and the \$3.75 million revolving credit facility is used to acquire additional portfolio securities and enhance yield. The facility bears interest at the bank's prime rate on the revolving facility and prime rate plus ¼% on the term facility. During 2007, the Fund's minimum and maximum borrowings were \$18.75 million and \$19.75 million respectively. As at December 31, 2007, the Fund had total borrowings of \$18.75 million which represented 13.0% of net assets.

The Fund's portfolio mix remained materially consistent despite the semi-annual rebalancings. Overall, the Fund's weighting in S&P/TSX Capped Call Option and oil & gas royalty trusts increased while its Reit position fell on weaker valuations. In accordance with the Fund's investment objective, the Fund maintains an equal weighted portfolio of Canadian income funds, as well as the opportunity to participate in the Canadian equity market as represented by the S&P/TSX 60 Index.



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2007, Income & Equity's market price traded at an average discount to its net asset value per unit of 10.6% compared to an average discount of 13.0% for 2006. With this discount, the Fund repurchased 636,900 units at an average cost of \$10.39 for 2007 under its mandatory repurchase program compared to 703,000 units at an average cost of \$10.52 per unit for 2006. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



RECENT DEVELOPMENTS

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Income & Equity's three person Under NI 81-107, an Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Fund was in full compliance with NI 81-107 at that time.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. The Fund's S&P/TSX call option has not been designated as a hedge for accounting purposes and has classified it as held for trading assets and recorded the fair value of this instrument on the statement of net assets. Portfolio investments and loan payable were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values; one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Fund intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

RELATED PARTY TRANSACTIONS

Equity Lift Management Ltd. is the administrator of Income & Equity, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and rebalancing advisory fees are based upon 0.55% of the aggregate average weekly net asset value of the Fund, payable in cash or units, monthly in arrears. Commencing March 1, 2007, these fees were paid in cash rather than units. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year since inception to December 31, 2007.

Net Assets per Unit ("NAPU")

	2007	2006	2005	2004 ⁽¹⁾
NAPU, beginning of period	\$ 11.34	\$ 12.07	\$ 10.52	\$ 9.42
Increase (decrease) from operations:				
Total revenue	0.94	1.01	0.95	0.83
Total expenses	(0.24)	(0.21)	(0.18)	(0.14)
Realized gains (losses)	(0.17)	0.05	0.02	0.13
Unrealized gains (losses)	0.01	(0.76)	1.53	0.97
Total increase (decrease) from operations	0.54	0.09	2.32	1.79
Distributions:				
From net investment income	0.71	0.87	0.83	0.70
From capital gains	—	0.01	0.01	—
Return of capital	0.19	—	—	—
Total cash distributions	0.90	0.88	0.84	0.70
NAPU, end of period	\$ 10.99	\$ 11.34	\$ 12.07	\$ 10.52

⁽¹⁾ The Fund commenced operations on February 18, 2004.

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2007 NAPU is based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

RATIOS AND SUPPLEMENTAL DATA

	2007	2006	2005	2004
Net assets (\$ 000's)	\$ 144,066	\$ 155,502	\$ 172,609	\$ 160,063
Number of units outstanding	13,111,198	13,710,884	14,300,250	15,214,381
Management expense ratio	1.87%	1.80%	1.66%	1.71%
Portfolio turnover ratio	20.42%	26.09%	12.83%	22.04%
Trading expense ratio	0.19%	0.24%	0.17%	0.12%
Closing market price	\$ 9.80	\$ 9.65	\$ 10.70	\$ 9.88

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

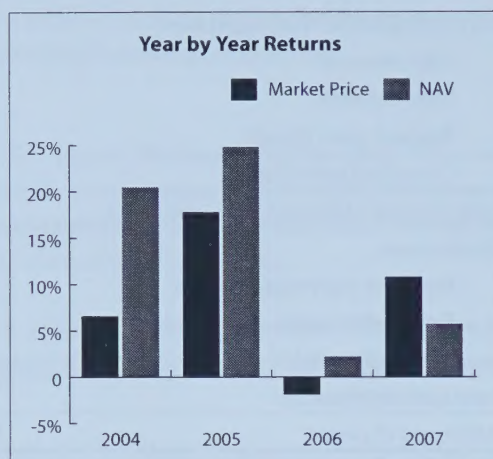
Pursuant to the administrative services agreement, total annual administrative and rebalancing advisory fees are based upon 0.55% of the aggregate average weekly net asset value of the Fund, payable in units or cash monthly in arrears. Commencing in March 2007, the administrative and rebalancing advisory fees were paid in cash rather than units of the Fund. Shaunessy Investment Counsel Inc., as rebalancing advisor to the Fund, provides invest-

ment advisory and rebalancing services to the Fund in exchange for a portion of the management fee. These fees represent payment for the administrative and rebalancing advisory services provided to the Fund.

PAST PERFORMANCE

Income & Equity's performance numbers represent the annual compound total returns over the period from inception in February 2004 to December 31, 2007 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Income & Equity based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2007. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2007, Income & Equity's net assets return underperformed the index due to its relative underweight position in the ongoing business trust sector which fared much better due to takeover activity.

	1 Year	3 Year	Since inception
Income & Equity (market price)	10.80%	8.58%	8.37%
Income & Equity (net assets)	5.74%	10.45%	13.37%
S&P/TSX Capped Income Trust Index	6.61%	10.70%	14.10%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: \$144,066,090

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	27.1%
Oil & Gas Royalty Trusts	18.7%
Real Estate Investment Trusts	12.2%
Infrastructure/Service Investments	10.1%
Power Generation Investments	7.4%
Basic Materials Investments	5.5%
S&P/TSX Capped Call Option	28.2%
Cash and Term Deposits	3.7%
Liabilities, net of other assets	(12.9%)
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Bird Construction Income Fund	1.5%	Davis + Henderson Income Fund	0.9%
Labrador Iron Ore Royalty Income Fund	1.2%	Energy Savings Income Fund	0.9%
Crescent Point Energy Trust	1.1%	Aeroplan Income Fund	0.9%
Canadian Oil Sands Trust	1.1%	Keyera Facilities Income Fund	0.9%
PrimeWest Energy Trust	1.0%	Freehold Royalty Trust	0.9%
AG Growth Income Fund	1.0%	Westshore Terminals Income Fund	0.9%
Morneau Sobeca Income Fund	1.0%	Inter Pipeline Income Fund	0.9%
Taylor NGL L.P.	1.0%	Fort Chicago Energy Partners L.P.	0.9%
North West Company Fund	1.0%	CI Financial Income Fund	0.9%
Pembina Pipeline Income Fund	0.9%	Teranet Income Fund	0.9%
Fording Canadian Coal Trust	0.9%	GMP Capital Trust	0.9%
Rogers Sugar Income Fund	0.9%	Armtech Infrastructure Income Fund	0.9%
CML Healthcare Income Fund	0.9%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

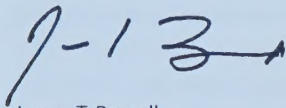
MANAGEMENT'S RESPONSIBILITY STATEMENT

The financial statements of Income & Equity Index Participation Fund have been prepared by Equity Lift Management Ltd. ("ELML") and approved by the Board of Directors of ELML. ELML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

ELML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

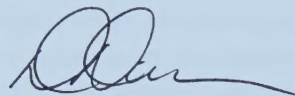
The Board of Directors of ELML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of ELML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Equity Lift Management Ltd.

March 20, 2008



Darren K. Duncan
Chief Financial Officer
Equity Lift Management Ltd.

AUDITORS' REPORT TO UNITHOLDERS

To the Unitholders of Income & Equity Index Participation Fund

We have audited the statements of net assets and investments of Income & Equity Index Participation Fund as at December 31, 2007 and 2006 and the statements of operations and comprehensive income, changes in net assets and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2007 and 2006 and the results of its operations, the changes in its net assets and cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.



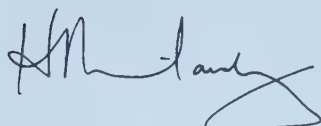
Chartered Accountants
Calgary, Alberta
March 20, 2008

STATEMENT OF NET ASSETS

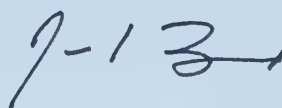
As at December 31	2007	2006
Assets		
Investments, at market	\$ 157,260,730	\$ 172,268,577
Cash and term deposits	5,379,039	2,429,899
Revenue receivable	1,195,814	1,416,149
Accounts receivable	60,521	363,065
Prepaid expenses	8,216	7,892
	163,904,320	176,485,582
Liabilities		
Accounts payable and accrued liabilities	104,890	123,397
Payable for investments purchased	—	82,180
Distributions payable	983,340	1,028,316
Loan payable (note 9)	18,750,000	19,750,000
	19,838,230	20,983,893
Net Assets representing Unitholders' Equity	\$ 144,066,090	\$ 155,501,689
Units outstanding (note 3)	13,111,198	13,710,884
Net Assets per unit	\$ 10.99	\$ 11.34

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the years ended December 31	2007	2006
Revenue		
Distribution income	\$ 12,380,376	\$ 14,171,695
Securities lending income	193,225	57,472
Interest income	83,218	2,854
	12,656,819	14,232,021
Expenses		
Loan interest (note 9)	1,199,795	1,171,021
Administrative and investment manager fees (note 5)	907,866	984,398
Trailer fee (note 6)	466,888	500,887
Portfolio transaction costs (note 10)	294,961	—
General and administration costs	154,113	148,346
Directors' fees	64,958	63,736
Reporting costs	31,421	61,297
Audit fees	23,528	22,364
Trustee fees	19,510	20,881
Custodial fees	17,392	18,955
Legal fees	15,440	28,498
	3,195,872	3,020,383
Net investment income	9,460,947	11,211,638
Net realized gain (loss) on sale of investments (note 7)	(2,249,039)	743,375
Net change in unrealized gain (loss) on investments	(2,994,040)	(17,348,114)
Net change in unrealized gain on S&P/TSX 60 option	3,127,932	6,800,479
Total results of operations and comprehensive income	\$ 7,345,800	\$ 1,407,378
Results of operations per unit⁽¹⁾		
Net investment income	\$ 0.70	\$ 0.80
Net realized gain (loss) on sale of investments	(0.17)	0.05
Net change in unrealized gain (loss) on investments	(0.22)	(1.24)
Net change in unrealized gain on S&P/TSX 60 option	0.23	0.48
	\$ 0.54	\$ 0.09

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

For the years ended December 31	2007	2006
Net Assets – beginning of year	\$ 155,501,689	\$ 172,608,709
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	(473,900)	–
Operations:		
Net investment income	9,460,947	11,211,638
Net realized gain (loss) on sale of investments	(2,249,039)	743,375
Net change in unrealized gain (loss) on investments	(2,994,040)	(17,348,114)
Net change in unrealized gain on S&P/TSX 60 option	3,127,932	6,800,479
	7,345,800	1,407,378
Unitholder Transactions: (note 3)		
Issuance of trust units, net	142,806	977,395
Proceeds from distribution reinvestment plan	232,606	207,730
Repurchase of trust units	(6,617,366)	(7,394,279)
	(6,241,954)	(6,209,154)
Distributions to Unitholders: (note 8)		
From net investment income	(9,610,315)	(12,189,033)
From capital gains	–	(116,211)
Return of capital	(2,455,230)	–
	(12,065,545)	(12,305,244)
Net Assets – end of year	\$ 144,066,090	\$ 155,501,689
Distributions per unit	\$ 0.90	\$ 0.88

see accompanying notes

STATEMENT OF CASH FLOWS

For the years ended December 31	2007	2006
Cash flows from operating activities:		
Net investment income	\$ 9,460,947	\$ 11,211,638
Fees paid in trust units	149,368	977,395
Net change in non-cash working capital	415,306	249,005
Purchase of investments	(35,419,215)	(48,778,464)
Proceeds from sale of investments	47,838,015	55,511,527
	22,444,421	19,171,101
Cash flows from financing activities:		
Increase (decrease) in loan payable	(1,000,000)	1,000,000
Proceeds from distribution reinvestment plan	232,606	207,730
Cash distributions to unitholders	(12,110,521)	(12,305,244)
Repurchase of trust units	(6,617,364)	(7,394,279)
	(19,495,281)	(18,491,793)
Net increase (decrease) in cash and term deposits	2,949,140	679,308
Cash and term deposits, beginning of year	2,429,899	1,750,591
Cash and term deposits, end of year	\$ 5,379,039	\$ 2,429,899

Supplementary Information

Interest paid	\$ 1,199,795	\$ 1,171,021
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see accompanying notes

STATEMENT OF INVESTMENT

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
AG Growth Fund	45,277	\$ 1,173,533	\$ 1,496,405		-	\$ -	\$ -	
Aeroplan Income Fund	55,596	657,145	1,313,178		88,025	1,040,455	1,493,784	
Arctic Glacier Income Fund	87,057	1,016,708	996,803		101,148	1,181,272	1,266,373	
Armtech Infrastructure Income Fund	51,300	1,198,922	1,232,739		-	-	-	
Avenir Diversified Income Fund	145,580	1,234,502	1,110,775		-	-	-	
BFI Canada Income Fund	43,909	828,637	1,167,979		41,789	762,453	1,124,124	
Bell Aliant Regional Comm. Income Fund	38,946	1,071,701	1,146,181		38,000	1,082,848	1,024,480	
Bell Nordiq Income Fund	-	-	-		78,887	1,171,220	1,176,205	
Bird Construction Income Fund	57,010	1,101,979	2,148,707		-	-	-	
The Brick Group Income Fund	128,480	1,590,184	1,125,485		124,378	1,602,496	1,063,432	
CI Financial Income Fund	45,189	1,303,046	1,262,581		41,645	1,211,037	1,112,754	
CML Healthcare Income Fund	78,830	863,513	1,349,570		83,004	901,423	1,157,906	
Canwest Mediaworks Income Fund	-	-	-		146,389	1,392,278	1,010,084	
Cineplex Galaxy Income Fund	73,319	862,259	1,219,295		89,261	1,047,080	1,209,487	
Cinram International Income Fund	-	-	-		46,272	1,193,355	1,061,942	
Connors Brothers Income Fund	-	-	-		104,113	1,597,562	1,093,186	
The Consumers' Waterheater Income Fund	73,971	1,087,096	1,087,374		88,672	1,303,971	1,189,978	
Contrans Income Fund	110,641	1,304,996	1,028,961		95,095	1,126,373	1,143,042	
Davis + Henderson Income Fund	64,214	1,178,599	1,342,715		68,232	1,280,690	1,054,867	
First National Financial Income Fund	-	-	-		-	-	-	
GMP Capital Trust	50,492	1,196,677	1,242,103		51,326	1,234,390	1,118,907	
Gateway Casinos Income Fund	-	-	-		78,576	1,393,185	1,343,650	
Genivar Income Fund	28,100	755,974	737,906		-	-	-	
Jazz Air Income Fund	149,493	1,252,789	1,139,137		-	-	-	
KCP Income Fund	-	-	-		122,610	1,197,915	912,218	
Liquor Stores Income Fund	47,300	999,224	1,131,416		-	-	-	
Livingston International Income Fund	60,926	1,108,533	1,011,372		58,468	1,051,080	1,217,304	
Morneau Sobeco Income Fund	98,524	1,251,549	1,435,495		95,774	1,245,062	997,007	
Mullen Group Income Fund	58,714	1,616,003	1,027,495		65,289	1,796,968	1,220,251	
North West Company Fund	65,675	548,519	1,371,294		80,784	674,710	1,254,576	
Parkland Income Fund	75,492	645,500	1,207,872		49,885	1,247,624	1,920,074	
Pizza Pizza Income Fund	50,700	502,569	509,535		-	-	-	
Rogers Sugar Income Fund	289,314	1,200,543	1,351,096		289,618	1,211,711	1,065,794	
Sleep Country Canada Income Fund	53,141	1,227,562	1,223,837		51,989	1,196,202	1,444,774	
Superior Plus Income Fund	78,080	1,479,763	904,947		109,791	2,080,746	1,175,862	
Teranet Income Fund	123,538	1,233,792	1,256,382		122,859	1,233,504	1,092,217	
TransForce Income Fund	86,701	1,002,375	797,649		72,355	809,259	976,069	
UE Waterheater Income Fund	-	-	-		83,578	1,035,786	1,177,614	
Versacold Income Fund	-	-	-		136,003	1,331,841	1,222,667	
Wajax Income Fund	33,541	1,056,220	1,074,989		29,960	933,254	1,026,130	
Westshore Terminals Income Fund	89,949	692,560	1,300,663		113,081	870,664	1,333,225	
Yellow Pages Income Fund	88,654	1,104,587	1,231,404		75,013	927,319	965,417	
		35,347,559	38,983,340	24.0%		39,365,733	38,645,400	22.1%

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Real Estate Investment Trusts								
Alexis Nihon Reit	—	—	—	—	91,493	1,113,470	1,560,871	—
Allied Properties Reit	57,289	946,641	1,184,164	—	68,155	1,083,665	1,584,604	—
Artis Reit	73,196	1,266,226	1,101,600	—	—	—	—	—
Boardwalk Reit	25,565	405,972	1,136,876	—	47,084	747,694	1,944,098	—
Calloway Reit	47,801	781,912	1,158,218	—	49,395	747,580	1,363,302	—
Canadian Reit	42,190	771,188	1,218,447	—	50,112	852,236	1,577,025	—
Canadian Apartment Reit	63,605	929,865	1,016,408	—	73,596	1,071,782	1,367,414	—
Canadian Hotel Income Properties Reit	—	—	—	—	92,616	1,024,124	1,382,757	—
Chartwell Seniors Housing Reit	80,675	1,130,789	912,434	—	86,698	1,215,211	1,208,570	—
Cominar Reit	57,557	972,907	1,174,163	—	62,382	1,018,302	1,403,595	—
Crombie Reit	95,757	1,096,269	1,059,072	—	108,314	1,228,281	1,408,082	—
Dundee Reit	—	—	—	—	42,826	1,069,188	1,655,225	—
Extendicare Reit	76,296	1,155,555	946,070	—	66,000	1,007,794	958,980	—
H&R Reit	52,098	917,265	1,031,019	—	52,555	908,104	1,266,050	—
IPC U.S. Reit	—	—	—	—	121,622	1,320,886	1,508,113	—
InnVest Reit	97,193	1,166,652	1,029,274	—	98,669	1,173,381	1,361,632	—
Legacy Hotels Reit	—	—	—	—	142,083	997,524	1,346,947	—
Morguard Reit	91,138	922,266	1,175,680	—	114,475	1,121,291	1,572,886	—
Northern Property Reit	54,010	1,064,098	1,204,423	—	56,382	1,056,687	1,575,877	—
Primaris Retail Reit	63,001	789,323	1,145,988	—	74,320	926,807	1,403,162	—
RioCan Reit	50,430	848,761	1,096,853	—	55,809	921,086	1,403,596	—
Sunrise Senior Living Reit	—	—	—	—	117,825	1,487,954	1,256,014	—
		15,165,689	17,590,689	10.8%		22,093,047	30,108,800	17.2%
Oil & Gas Royalty Trusts								
ARC Energy Trust	56,257	945,028	1,145,955	—	51,632	841,607	1,151,394	—
Advantage Energy Income Fund	87,730	1,194,347	763,251	—	61,965	1,098,193	770,225	—
Baytex Energy Trust	58,830	725,072	1,111,887	—	49,905	540,884	1,111,883	—
Bonavista Energy Trust	40,491	908,610	1,149,135	—	34,489	727,574	970,865	—
Bonterra Energy Trust	43,713	1,079,363	1,038,184	—	37,553	921,187	960,230	—
Canadian Oil Sands Trust	39,162	504,225	1,514,395	—	33,547	319,179	1,093,968	—
Canetic Resources Trust	72,009	1,044,132	958,440	—	74,282	1,073,939	1,221,196	—
Crescent Point Energy Trust	62,496	909,928	1,543,026	—	55,323	774,842	973,685	—
Daylight Energy Trust	121,555	1,462,387	873,980	—	115,239	1,400,871	1,176,590	—
Enerplus Resources Fund	24,541	998,007	975,750	—	19,170	738,168	971,536	—
Enterra Energy Trust	—	—	—	—	125,087	1,854,780	1,157,055	—
Fairborne Energy Trust	—	—	—	—	92,191	1,050,439	963,396	—
Focus Energy Trust	71,551	1,101,434	1,196,333	—	64,589	979,212	1,174,228	—
Freehold Royalty Trust	83,821	1,240,508	1,305,093	—	85,510	1,265,505	1,266,403	—
Harvest Energy Trust	37,015	864,955	763,619	—	36,366	839,430	953,880	—
NAL Oil & Gas Trust	96,928	1,135,065	1,119,518	—	90,385	1,055,244	1,112,639	—
Paramount Energy Trust	112,756	1,334,291	705,853	—	65,281	773,546	809,484	—
Pengrowth Energy Trust	61,470	1,313,634	1,083,101	—	101,493	2,168,939	2,023,770	—
PennWest Energy Trust	35,152	1,073,939	907,273	—	26,898	794,836	956,762	—
Peyto Energy Trust	66,701	1,052,244	1,123,245	—	68,001	1,072,752	1,203,618	—
PrimeWest Energy Trust	56,134	1,350,117	1,510,566	—	49,051	1,198,434	1,054,597	—
Progress Energy Trust	97,942	1,294,593	1,059,732	—	74,092	1,018,024	931,336	—
Provident Energy Trust	98,428	1,083,051	978,374	—	88,542	961,607	1,136,879	—
Shiningbank Energy Income Fund	—	—	—	—	56,967	1,041,448	732,026	—
Sound Energy Trust	—	—	—	—	160,813	1,281,635	821,754	—
Spectra Energy Trust	116,331	1,284,416	1,041,162	—	—	—	—	—
Thunder Energy Trust	—	—	—	—	144,983	1,622,660	822,054	—
Trilogy Energy Trust	126,195	1,821,597	866,960	—	63,900	1,168,628	728,460	—
True Energy Trust	—	—	—	—	87,897	1,680,137	658,349	—
Vermilion Energy Trust	33,855	569,780	1,153,101	—	34,955	588,292	1,223,425	—
Zargon Energy Trust	43,779	1,081,657	998,161	—	39,493	977,452	979,032	—
		27,372,380	26,886,094	16.5%		31,829,444	31,110,719	17.8%
<i>(continued on following page)</i>								

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Basic Materials Investments								
Canfor Pulp Income Fund	75,900	999,087	828,828		-	-	-	
Chemtrade Logistics Income Fund	126,740	1,249,350	1,069,686		-	-	-	
Fording Canadian Coal Trust	35,224	703,919	1,351,545		44,761	877,075	1,076,502	
Great Lakes Carbon Income Fund	-	-	-		125,803	1,482,888	1,421,574	
Labrador Iron Ore Royalty Income Fund	35,708	695,142	1,688,631		50,680	986,609	1,256,864	
Noranda Income Fund	113,494	1,281,048	1,094,082		101,488	1,167,110	999,657	
Royal Utilities Income Fund	82,700	999,429	875,793		-	-	-	
TimberWest Forest Corp.	70,432	910,966	1,035,350		84,219	1,089,286	1,269,180	
		6,838,941	7,943,915	4.9%		5,602,968	6,023,777	3.4%
Power Generation Investments								
Algonquin Power Income Fund	143,561	1,575,269	1,204,477		126,461	1,425,473	1,255,758	
Boralex Power Income Fund	202,335	1,802,915	1,185,683		117,026	1,269,639	1,097,704	
Energy Savings Income Fund	80,000	1,241,468	1,332,000		89,281	1,385,494	1,200,829	
Epcor Power L.P.	47,442	1,630,154	1,103,501		46,597	1,635,919	1,246,470	
Gaz Metro L.P.	74,321	1,623,375	1,206,973		74,550	1,629,381	1,161,489	
Great Lakes Hydro Income Fund	61,423	1,077,552	1,229,074		67,811	1,188,962	1,301,971	
Innergex Power Income Fund	99,962	1,204,893	1,179,552		88,933	1,066,640	1,179,252	
MacQuarie Power and Infrastructure Income Fund	119,424	1,312,787	1,124,974		118,171	1,301,453	1,187,618	
Northland Power Income Fund	92,204	1,189,796	1,125,811		94,348	1,216,006	1,233,128	
TransAlta Power, L.P.	-	-	-		167,340	1,601,834	1,250,030	
		12,658,209	10,692,045	6.6%		13,720,801	12,114,249	6.9%
Infrastructure / Service Investments								
AltaGas Income Trust	46,731	965,125	1,229,025		41,645	833,239	1,091,099	
CCS Income Trust	-	-	-		32,641	514,139	1,232,199	
Cathedral Energy Services Income Trust	127,350	1,530,897	1,049,364		111,618	1,388,329	1,111,715	
Enbridge Income Fund	108,327	1,363,599	1,110,352		92,900	1,182,465	1,226,280	
Enerflex Systems Income Trust	120,895	1,334,561	1,069,921		90,000	1,004,274	994,500	
Eveready Income Fund	245,551	1,645,688	974,837		175,529	1,250,835	1,095,559	
Fort Chicago Energy Partners L.P.	117,175	1,310,476	1,269,005		103,577	1,165,227	1,188,028	
Inter Pipeline Fund	134,906	1,164,233	1,278,909		121,867	1,044,914	1,101,678	
Keyera Facilities Income Fund	66,353	908,105	1,311,799		72,155	987,511	1,200,659	
Newalta Income Fund	48,324	966,840	879,497		39,956	665,766	1,040,311	
Pembina Pipeline Income Fund	77,409	1,054,604	1,353,883		74,320	1,004,654	1,176,486	
Precision Drilling Income Trust	47,380	1,662,917	711,648		40,553	1,483,191	1,094,931	
Taylor NGL L.P.	128,702	1,041,490	1,429,879		120,771	966,168	1,051,915	
Total Energy Trust	-	-	-		75,293	808,647	898,998	
Trinidad Energy Services Income Fund	83,352	817,382	875,196		86,001	823,004	1,186,814	
		15,765,917	14,543,315	8.9%		15,122,363	16,691,172	9.6%
Income & Equity								
- repurchased units for cancellation	-	-	-	-	8,400	82,180	81,060	0.1%
S&P/TSX 60 Capped Call Option		17,693,875	40,621,330	25.0%		17,693,875	37,493,400	21.5%
Investments		130,842,570	157,260,730	96.7%		145,510,411	172,268,577	98.5%
Cash and Term Deposits		5,379,039	5,379,039	3.3%		2,429,899	2,429,899	1.5%
Total		\$ 136,221,609	\$ 162,639,769	100.0%		\$ 147,940,310	\$ 174,698,476	100.0%

All portfolio holdings are trust units, except the following: Noranda Income Fund – priority units; TimberWest Forest Corp. – stapled units; Epcor Power L.P., TransAlta Power L.P., Gaz Metro L.P. and Taylor NGL L.P. – limited partnership units; Fort Chicago Energy Partners L.P. - Class A – limited partnership units.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. STRUCTURE OF THE FUND

Income & Equity Index Participation Fund (the "Fund" or "Income & Equity") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 17, 2003. The Fund commenced operations upon completion of its initial public offering on February 18, 2004. The term of the Fund continues until June 30, 2009 in accordance with the provisions of the Fund's Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and term deposits

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date. The Capped Call Option is recorded at its fair value on the valuation date and changes in the fair value at each valuation date are recorded on the Statement of Operations and Comprehensive income.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the invest-

ments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. The Fund's S&P/TSX call option has not been designated as a hedge for accounting purposes and has classified it as held for trading assets and recorded the fair value of this instrument on the statement of net assets. Portfolio investments and loan payable were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, investments, prepaid expenses, accounts payable and accrued liabilities, payable for investments purchased, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

(f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Trust units – beginning of year	13,710,884	\$ 128,114,649	14,300,250	\$ 134,323,803
Issued for services (note 5)	14,669	142,806	93,579	977,395
Issued under DRIP	22,545	232,606	20,055	207,730
Repurchase of trust units	(636,900)	(6,617,364)	(703,000)	(7,394,279)
Trust units – end of year	13,111,198	\$ 121,872,697	13,710,884	\$ 128,114,649

The weighted average number of units outstanding for the year ended December 31, 2007 was 13,453,245 units (2006 – 14,038,578 units).

The Fund has a mandatory repurchase program whereby trust units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2007, Income & Equity repurchased 636,900 trust units under this program at an average cost of \$10.39 per unit (2006 – 703,000 units at an average cost of \$10.52 per unit).

Unitholders of Income & Equity can acquire additional trust units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2007, a total of 22,545 units were issued under the DRIP (2006 – 20,055 units).

4. CAPPED CALL OPTION

Upon closing of its initial public offering, the Fund purchased an "at the money" five year capped call option on the S&P/TSX 60 Index from two chartered banks. The option is a European option which means it can only be exercised upon the expiry date of February 18, 2009. The option is capped at the first 30% increase in the S&P/TSX 60 Index, representing an additional \$3.00 per unit to unitholders.

5. ADMINISTRATIVE AND REBALANCING ADVISORY FEES / DIRECTORS' FEES

Equity Lift Management Ltd. ("ELML") is the administrator of the Fund and therefore a related party to the Fund. Shaunessy Investment Counsel Inc., Inc. is the rebalancing advisor of the Fund. Pursuant to the administrative services and rebalancing advisory agreements, total annual administrative and rebalancing advisor fees are based upon 0.55% of the aggregate average weekly net asset value of the Fund, payable in units to March 1, 2007, monthly in arrears. Commencing in March 2007, the administrative and rebalancing advisor fees were paid in cash rather than units of the Fund. For the year ended December 31, 2007, the Fund issued 14,669 trust units and paid cash fees of \$765,060 for a total expense of \$907,866 in respect of the administrative and rebalancing advisory fees earned for the period (2006 – 88,531 trust units and an expense of \$984,398). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts receivable were amounts owed from ELML of \$60,521 (2006 – \$363,065 in accounts receivable).

Directors of ELML received a total of \$55,625 in cash in February 2007 (February 2006 – 5,048 units for a value of \$52,500) as payment for their annual retainers.

6. TRAILER FEE

Income & Equity pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.30% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2007, the Fund recorded an expense of \$466,888 relating to the trailer fee (2006 – \$500,887).

7. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the years ended December 31	2007	2006
Proceeds from the sale of securities	\$ 47,838,015	\$ 55,511,527
Less cost of securities sold:		
Investments at cost – beginning of year	127,816,534	133,806,222
Investments purchased during year	35,419,215	48,778,464
Investments at cost – end of year	(113,148,695)	(127,816,534)
Cost of investments disposed of during year	50,087,054	54,768,152
Net realized gain (loss) on sale of investments	\$ (2,249,039)	\$ 743,375

8. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses. For the years ended December 31, 2007 and 2006, the Fund also distributed a portion of its realized capital gains and/or return of capital.

For the years ended December 31	2007	2006
Net investment income for the year	\$ 9,460,947	\$ 11,211,638
Add fees paid by issuance of units	149,368	977,395
Capital distributed	2,455,230	116,211
Cash distributions	\$ 12,065,545	\$ 12,305,244
Cash distributions per unit	\$ 0.90	\$ 0.88

9. LOAN FACILITY

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of \$22.5 million. At December 31, 2007 and 2006, the Fund had fully drawn upon the term portion of the facility in the amount of \$18.75 million. The term facility is due and payable on the earlier of February 18, 2009 or termination of the Fund. The revolving portion of the facility totals \$3.75 million of which none was drawn at December 31, 2007 (2006 – \$1.0 million) and will revolve until February 18, 2009. Borrowings are collateralized by a \$50 million demand debenture which provides a first floating charge over the Fund's assets. The facility bears interest at the bank's prime rate on the revolving facility and prime rate plus ¼% on the term facility. The maximum borrowings during 2007 totaled \$19.75 million, while the minimum amount drawn was \$18.75 million.

10. PORTFOLIO TRANSACTION COSTS

For the year ended December 31, 2007, the Fund incurred portfolio transaction costs of \$294,961 (2006 – \$395,411) and they are recorded separately in the Statement of Operations for 2007 only, as per Note 2(e).

11. SECURITIES LENDING

The Fund engaged in securities lending during 2007 and as at December 31, 2007, the Fund had lent out \$22.4 million (2006 – \$28.1 million) of its portfolio securities with \$23.6 million (2006 – \$30.3 million) of collateral in primarily federal and provincial bonds.

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CORPORATE INFORMATION

ADMINISTRATORS

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
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Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

INVESTMENT MANAGER

**(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)**

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INVESTMENT MANAGER

(EPF.un, SPU.un and CGF Resource 2006)

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INVESTMENT MANAGER

(CPF.un)

Fiera YMG Capital Inc.
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REBALANCING ADVISOR

(IEP.un, EQW.un and FPR.pr.a)

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Calgary, Alberta T2T 5R6

INDEPENDENT REVIEW COMMITTEE

Stephen Allan – Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

TRUSTEE

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Calgary, Alberta T2P 3S8

CUSTODIAN

CIBC Mellon Global Securities Services Company
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Calgary, Alberta T2P 5C5

AUDITORS

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



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